

The Influence of Market Orientation on Marketing Performance Through Absorptive Capacity in Food and Beverage SMEs in Sidoarjo

Nuriya Sinta Dewi

Management Economics, Nahdlatul Ulama University, Sidoarjo, Indonesia

31421018.student@unusida.ac.id

Muhafidhah Novie

Management Economics, Nahdlatul Ulama University, Sidoarjo, Indonesia

muhafidhahnovie.mnj@unusida.ac.id

Laily Muzdalifah

Management Economics, Nahdlatul Ulama University, Sidoarjo, Indonesia

nuriyashintadewidewi@gmail.com

Cynthia Eka Violita

Management Economics, Nahdlatul Ulama University, Sidoarjo, Indonesia

sintanuriya600@gmail.com

Abstract

This study aims to analyze the effect of Market Orientation on Marketing Performance through Absorptive Capacity in the food and beverage MSME sector in Sidoarjo. The research method used is quantitative with an explanatory research approach. Data were collected through a survey of 216 MSMEs selected using a purposive sampling technique. Data analysis was conducted using the SEM-PLS method with Smart PLS 4.0. The results show that Market Orientation has a positive and significant effect on Marketing Performance. Furthermore, Market Orientation also positively influences Absorptive Capacity, which in turn enhances Marketing Performance. These findings confirm that Absorptive Capacity plays a significant mediating role in the relationship between Market Orientation and Marketing Performance. Thus, increasing market orientation in MSMEs can strengthen competitiveness and improve overall marketing performance.

Keywords: *Market Orientation; Absorptive Capacity; Marketing Performance; MSMEs; SEM-PLS.*

1. Introduction

In the era of globalization and business competition, Micro, Small, and Medium Enterprises (MSMEs) play an important role in Indonesia's economic growth. MSMEs not only increase regional income through product exports but also absorb and educate the workforce, thus reducing unemployment rates. MSMEs serve as a pillar of Indonesia's economy and have shown good resilience when facing monetary crises (Attia & Essam Eldin, 2018). Sidoarjo Regency, known as the city of MSMEs, recorded more than 13,000 micro-business units in 2021 across various types of businesses, where the food and beverage sector became a major contributor to the local economy.

Table 1 Food and Beverage Sector MSMEs in Sidoarjo Regency:

No	Year	Number of food and beverage MSMEs	Food and Beverage MSMEs experiencing sales turnover	
			Number	Percentage
1	2022	10.200	9.900	97%

2	2023	10.900	10.300	94%
3	2024	12.000	10.800	90%

Source: Department of Cooperatives and MSMEs of Sidoarjo Regency 2024

Based on Table 1, the data shows that MSMEs in the food and beverage sector have strengthened over the past three years. However, the growth in the number of MSMEs has not been balanced with increased sales growth, which has tended to decrease in percentage terms, indicating suboptimal marketing performance. MSMEs still have limitations in terms of resources, whether financial, technological, or knowledge-based, which can hinder their ability to innovate and adapt to market changes.

Market orientation serves as a source of inspiration for micro-businesses in implementing innovative methods and constitutes a source of competitive advantage to improve marketing performance (Tjiptono & Chandra, 2017). Market orientation encompasses proactive activities in identifying customer needs, understanding market dynamics, and responding strategically to create more value for consumers (Jaworski, B.J., Kohli, 2020; Narver & Slater, 2017). Marketing Performance is the achievement obtained by a company in reaching sales targets in the market with certain strategies, not only focusing on sales but also market share (Nasir, 2017).

Previous research shows differences in results regarding the influence of Market Orientation on Marketing Performance. Taufik (2020) stated that Market Orientation has no significant effect on Marketing Performance, while Asashi and Sukaatmadja (2017) and Pertiwi and Siswoyo (2016) found that Market Orientation has a positive and significant effect on Marketing Performance. These differences in results indicate a research gap that needs to be further examined.

Research on the role of mediating variables, such as Absorptive Capacity, in the relationship between Market Orientation and Marketing Performance is still very limited. Absorptive Capacity refers to an organization's ability to recognize, absorb, and utilize external knowledge (Cuervo-Cazurra & Rui, 2017). Hernández-Perlines et al. (2017) emphasize that Absorptive Capacity not only affects a company's ability to absorb information but also how that information is translated into relevant strategies to achieve marketing goals. Research by Engelen et al. (2015) supports that Absorptive Capacity can increase a company's competitiveness through innovation, which ultimately positively affects Marketing Performance.

Based on these research gaps, this study aims to determine the influence of Market Orientation on Marketing Performance, the influence of Market Orientation on Absorptive Capacity, the influence of Absorptive Capacity on Marketing Performance, and the influence of Market Orientation on Marketing Performance through Absorptive Capacity in food and beverage MSMEs in Sidoarjo. This research is expected to provide deeper insights into the mechanisms of relationships between variables and provide theoretical and practical contributions to MSME management to increase competitiveness in an increasingly competitive market.

2. Literature Review

Tjiptono and Chandra (2017) define market orientation as a behavioral and activity-based measure that reflects the implementation of marketing concepts within a company. It becomes increasingly important amid global competition and changing consumer needs, as companies must stay close to the market to remain relevant. Market orientation involves a continuous process of understanding and fulfilling customer needs.

According to Suwarman et al. (in Pratama & Hendayana, 2024), marketing performance refers to the overall achievement of marketing processes within an organization. Each company seeks to create distinct strategies to outperform competitors, with the ultimate goal of achieving optimal performance outcomes from these marketing efforts.

Vincent and Zakkariya (2021) define absorptive capacity as a dynamic capability that enables a company to enhance its opportunity-seeking efforts by absorbing competitors' knowledge and skills.

Similarly, da Costa et al. (2018) describe absorptive capacity as the company's ability to recognize the value of external knowledge, assimilate it, and apply it for commercial purposes

Previous studies have examined the impact of market orientation on marketing performance with varying results. Taufik (2020) found no significant relationship between the two variables. In contrast, research by Asashi and Sukaatmadja (2017), and Pertiwi and Siswoyo (2016), found a positive and significant relationship. These conflicting results indicate a research gap that warrants further investigation.

Furthermore, scholars have suggested that market orientation alone is not sufficient to improve marketing performance. The mediating role of absorptive capacity—a firm's ability to absorb, assimilate, and apply external knowledge—is critical. This capacity enables micro, small, and medium enterprises (MSMEs) to integrate external information into their business strategies, which leads to innovation and improved competitiveness. Empirical studies support the positive relationship between absorptive capacity and marketing performance, suggesting that it enhances the effectiveness of market orientation in the MSME context (Zahra & George, 2002; Kharabsheh et al., 2017; Vincent & Zakkariya, 2021).

3. Research Methods

This research employs a quantitative approach with explanatory research design to explain the causal relationship between Market Orientation (X), Absorptive Capacity (Z), and Marketing Performance (Y). The population in this study consists of all food and beverage sector MSMEs in Sidoarjo Regency. Samples were selected using purposive sampling with the following criteria: MSMEs operating in the food and beverage sector, active in the last 2 years, minimum 2 years of experience, and minimum monthly turnover of IDR 10,000,000. From 414 MSMEs meeting the criteria, a sample of 216 MSMEs was determined using the Slovin formula with a 5% margin of error.

The operational definitions of variables include: Market Orientation as activities to understand customer needs, competitors, and internal coordination (indicators: customer orientation, competitor orientation, inter-functional coordination); Absorptive Capacity as the ability to absorb and apply external knowledge (indicators: adaptation capability, problem solving, ability to capture information); and Marketing Performance as the achievement of marketing activities (indicators: growth in sales, consumers, and profits).

Data validity testing includes validity tests (valid if loading factor > 0.7) and reliability tests (reliable if Cronbach's Alpha \geq 0.7). Data analysis uses Smart PLS 4.0, including validity tests, reliability tests, as well as inner model and outer model tests to examine the research hypotheses.

4. Result and Discussion

1. Validity Test

The measurement model evaluation (outer model) in this research uses two testing approaches: validity and reliability. Validity testing covers two aspects: convergent validity and discriminant validity. Meanwhile, reliability testing is conducted through calculating composite reliability and Cronbach's Alpha values. To see the results of discriminant validity, we can refer to the loading factor displayed in Figure 5 and presented in Table 2.

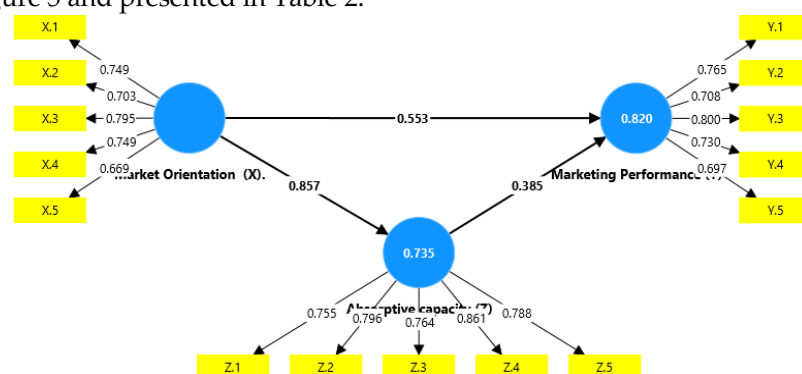


Figure 1 Loading Factor Results

Loading factor is a value that shows the relationship between latent variables and their indicators, which is used to evaluate construct validity. According to theoretical standards, indicators are considered valid if they have a loading factor value of ≥ 0.7 . However, in the context of model development, loading factor values between 0.5 - 0.6 can still be accepted (Supriyati, 2021). The loading factor calculation results shown in Figure 1 indicate that all values are above 0.50. This indicates that these indicators have met the convergent validity criteria and comply with the previously validated rule of thumb. Complete details of the test results can be seen in the following Table 2.

According to Supriyati (2021), evaluation of discriminant validity can be done by observing the cross-loading values and the square root of AVE constructs. In Cross Loading analysis, the loading score values in the same indicator group should show higher figures compared to the correlation values between latent variables. To see the results of cross-loading values from the hypotheses in this study, refer to Table 2 below.

Table 2 Cross Loading Values

	<i>Market Orientation (X)</i>	<i>Absorptive capacity (Z)</i>	<i>Marketing Performance (Y)</i>
X.1	0.663	0.717	0.584
X.2	0.626	0.598	0.604
X.3	0.678	0.670	0.751
X.4	0.672	0.630	0.704
X.5	0.632	0.557	0.576
Z.1	0.653	0.755	0.672
Z.2	0.710	0.796	0.703
Z.3	0.648	0.764	0.607
Z.4	0.735	0.861	0.756
Z.5	0.650	0.788	0.663
Y1	0.749	0.565	0.765
Y.2	0.703	0.570	0.708
Y.3	0.795	0.666	0.800
Y.4	0.749	0.683	0.730
Y.5	0.669	0.648	0.697

Source: Processed by researcher 2025

Based on the cross-loading analysis in Table 2, the constructs of Market Orientation (X), Absorptive Capacity (Z), and Marketing Performance (Y) demonstrate good discriminant validity. Each indicator loads more strongly on its respective construct than on others—for instance, Absorptive Capacity indicators (Z.1–Z.5) show loading values between 0.755 and 0.861 on their designated construct. Although some indicators show relatively high cross-loadings with other constructs, the overall pattern remains within acceptable limits, with most loading factors above 0.6. This confirms that the measurement instruments used are valid and reliable, as each construct accurately reflects its intended concept. Additionally, the AVE (Average Variance Extracted) values, shown in Table 3, meet the recommended threshold of above 0.5, further supporting the discriminant validity of the data for further analysis:

Table 3 Average Variance Extracted

Variable	Average variance extracted (AVE)	explanation
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<i>Absorptive Capacity (Z)</i>	0.630	Valid
<i>Marketing Performance (Y)</i>	0.549	Valid
<i>Market Orientation (X)</i>	0.539	Valid

Source: Processed by researcher 2025

Based on the table above, it can be seen that the AVE values for all constructs are above the threshold of 0.5, where Absorptive Capacity (Z) has the highest value of 0.630, followed by Marketing Performance (Y) with 0.549, and Market Orientation (X) with 0.539. This indicates that all constructs have adequate discriminant validity and can be used for further analysis.

2. Reliability Test

After validity is confirmed, the next stage is to check the reliability of the research instrument. Reliability testing is conducted to measure the extent to which the instrument produces consistent data, even when used at different times, places, and with different groups of respondents. In this test, two main parameters are used: composite reliability and Cronbach's Alpha. Research constructs are considered reliable when the composite reliability value exceeds 0.7 and Cronbach's Alpha is above 0.6. The reliability test results for both parameters can be seen in Table 13 below.

Table 4 Composite Reliability and Cronbach's Alpha

Variable	Cronbach's alpha	Composite reliability (rho_c)	explanation
Absorptive Capacity (Z)	0.852	0.895	Reliable
Marketing Performance (Y)	0.793	0.858	Reliable
Market Orientation (X)	0.785	0.854	Reliable

Source: Processed by researcher 2025

Based on the results displayed in Table 5, it can be seen that all variables in this study have Cronbach's alpha values > 0.6 and composite reliability > 0.7, so all variables in this study can be considered reliable. This indicates that the research instruments have high internal consistency and can be relied upon for data collection in various different time and place contexts.

3. R-Square Analysis

This analysis aims to identify the percentage of variability in endogenous constructs that can be explained by exogenous constructs. This study also serves to evaluate the goodness of fit of the structural equation model. Higher R-square values indicate a greater ability of exogenous variables to explain endogenous variables, thus resulting in more accurate structural equations. The following are the output results of the R-Square values:

Table 5 R-Square

Variable	R-square	R-square adjusted
Absorptive Capacity (Z)	0.735	0.733
Marketing Performance (Y)	0.820	0.818

Source: Processed by researcher 2025

Based on table 5, it can be seen that:

1. Absorptive Capacity (Z) has an R-Square value of 0.735, which means 73.5% of the variability in Absorptive Capacity can be explained by the exogenous variables affecting it, while 26.5% is influenced by other factors outside this model. The Adjusted R-Square value of 0.733 shows that after being corrected for the number of variables in the model, the results remain stable and valid.
2. Marketing Performance (Y) has an R-Square value of 0.820, which means 82% of the variability in Marketing Performance can be explained by exogenous variables in the model, while 18% is influenced by other factors not included in this model. The Adjusted R-Square value of 0.818 also shows consistency in the model used.

4. F-Square Analysis

After evaluating model strength with R-Square, F-Square analysis is conducted to measure the effect size of each exogenous variable on endogenous variables. F-Square values are used to determine whether the influence of an exogenous variable has a small, medium, or large impact on endogenous variables in the structural model. The following are the results of the F-Square analysis:

Table 7 F-Square

Variable	Absorptive Capacity (Z)	Marketing Performance (Y)
Absorptive Capacity (Z)		0.219
Marketing Performance (Y)		
Market Orientation (X)	2.769	0.451

Source: Processed by researcher 2025

Based on Table 7, Market Orientation (X) has a very strong influence on Absorptive Capacity (Z) with an F-Square value of 2.769, and a moderate influence on Marketing Performance (Y) with a value of 0.451. Meanwhile, Absorptive Capacity (Z) shows a small to moderate effect on Marketing Performance (Y) with an F-Square of 0.219. These results indicate that improving Market Orientation significantly boosts both Absorptive Capacity and Marketing Performance, either directly or indirectly.

5. Hypothesis Testing (Direct and Indirect Effects Between Variables)

This hypothesis testing aims to identify both the direct effects of exogenous (independent) variables on endogenous (dependent) variables, as well as the indirect effects through mediating variables. The evaluation is conducted using path coefficients, which indicate parameter coefficients and the significance levels based on T-statistics and P-values. The criteria for determining significant influence in this study use a probability level of 0.05 (5%), with the following provisions:

- If T-Statistics > 1.96 and P-Value < 0.05, the effect between variables is significant, and the alternative hypothesis (Ha) is accepted.
- If T-Statistics ≤ 1.96 and P-Value ≥ 0.05, there is no significant effect, and the null hypothesis (Ho) is accepted.

Table 8. Hypothesis Testing Results

Path	Original Sample (O)	Sample Mean (M)	Standard Deviation	T Statistics	P Values	explanation
Market Orientation (X) → Marketing Performance (Y)	0.553	0.554	0.064	8.688	0.000	Accepted
Market Orientation (X) → Absorptive Capacity (Z)	0.857	0.858	0.018	47.957	0.000	Accepted
Absorptive Capacity (Z) → Marketing Performance (Y)	0.385	0.385	0.064	5.979	0.000	Accepted
Market Orientation (X) → Absorptive Capacity (Z) → Marketing Performance (Y)	0.330	0.331	0.056	5.875	0.000	Accepted

Source: Processed by researcher, 2025

Table 8 shows that *Market Orientation* (X) has a positive and significant direct effect on both *Marketing Performance*(Y) (coefficient = 0.553, T = 8.688, p = 0.000) and *Absorptive Capacity* (Z) (coefficient = 0.857, T = 47.957, p = 0.000). *Absorptive Capacity* (Z) also significantly influences *Marketing Performance* (Y) (coefficient = 0.385, T = 5.979, p = 0.000). Additionally, *Market Orientation* has a positive indirect effect on *Marketing Performance* through *Absorptive Capacity* (coefficient = 0.330, T = 5.875, p =

0.000), confirming its mediating role. Thus, companies with strong market orientation and absorptive capacity tend to achieve better marketing performance.

Discussion

1. The Influence of Market Orientation on Marketing Performance

The analysis shows that Market Orientation has a positive and significant effect on Marketing Performance. This means the higher the level of market orientation applied, the greater the improvement in marketing performance achieved by food and beverage MSMEs in Sidoarjo. These findings align with studies by Asashi & Sukaatmadja (2017) and Pertiwi & Siswoyo (2016), which also confirm that market orientation positively influences marketing outcomes.

This relationship exists because market-oriented companies better understand customer needs, trends, and competitor strategies. With this insight, they can develop more relevant products and services, increasing customer satisfaction and competitiveness. Food and beverage MSMEs can implement market orientation by collecting regular feedback on taste, packaging, and pricing, adapting trending products to local preferences, and analyzing competitor pricing and promotion strategies. These steps help MSMEs respond quickly to market changes and improve their marketing performance.

2. The Influence of Market Orientation on Absorptive Capacity

Research findings show that Market Orientation significantly enhances Absorptive Capacity, meaning that the more market-oriented a company is, the better it can acquire and utilize external information to improve competitiveness. This supports Zahra & George's (2002) view that market-oriented firms are more proactive in exploring external knowledge, which strengthens their ability to absorb and apply it effectively. Companies with strong market orientation are more responsive to changes in customer needs and better at identifying opportunities and crafting innovative strategies.

For food and beverage MSMEs, improving absorptive capacity can be achieved by engaging in culinary communities or MSME associations that promote knowledge sharing. For instance, a meatball vendor can join a trade group to learn efficient processing methods or cost-effective ingredients. MSMEs may also benefit from government-led training programs in food hygiene, business management, or digital marketing. By staying updated with trends—like eco-friendly packaging or digital payment methods—MSME owners can adapt quickly and enhance their market responsiveness.

3. The Influence of Absorptive Capacity on Marketing Performance

The analysis results show that Absorptive Capacity has a positive and significant effect on Marketing Performance. Hence, the higher a company's Absorptive Capacity, the better the Marketing Performance it can achieve. This finding is consistent with studies by Kharabsheh et al. (2017) and Vincent & Zakkariya (2021), which emphasize the essential role of absorptive capacity in improving marketing performance through the ability to adopt and apply external knowledge.

The relationship between Absorptive Capacity and Marketing Performance occurs because companies that can absorb and manage external information effectively are better prepared to respond to market changes. This ability enables them to innovate, improve product quality, and tailor marketing strategies to customer needs. Furthermore, companies with high Absorptive Capacity are more flexible in facing business challenges, which in turn enhances marketing effectiveness and supports more sustainable growth.

Food and beverage MSMEs can apply absorptive capacity by systematically documenting and analyzing customer feedback. For example, a coffee shop owner might record customer comments on coffee acidity or thickness, then use that information to refine recipes. MSMEs can also leverage technology such as point-of-sale (POS) systems to analyze consumer purchasing patterns and identify the most popular products. For instance, a catering business can analyze order data to determine the most in-demand menus and discontinue underperforming items. Additionally, absorptive capacity can

be implemented by adopting food styling techniques learned from competitors or social media platforms to enhance the visual appeal of products sold online.

4. The Influence of Market Orientation on Marketing Performance Through Absorptive Capacity

Absorptive Capacity serves as a mediating variable in the relationship between Market Orientation and Marketing Performance. Enhancing market orientation improves a firm's ability to acquire, assimilate, and apply external knowledge, which in turn strengthens marketing outcomes. This aligns with Zahra & George (2002), who highlighted the mediating role of absorptive capacity in linking strategic orientation to firm performance. Similarly, da Costa et al. (2018) emphasize the commercial value of a firm's ability to leverage external insights for innovation and efficiency.

In the context of food and beverage MSMEs, the integration of market orientation and absorptive capacity can be implemented through a holistic approach. For example, a traditional snack producer may identify consumer preferences for healthy snacks via simple surveys, absorb that knowledge, and innovate by using healthier ingredients. MSMEs can also leverage social media to gather insights and respond quickly with product or marketing adaptations—such as a Padang food stall offering a “diet Padang” menu based on low-calorie trends. This synergy fosters continuous improvement and drives stronger marketing performance.

5. Conclusion

This study reveals that Market Orientation has a positive and significant influence on Marketing Performance, both directly and through the mediating role of Absorptive Capacity. The higher the level of Market Orientation implemented by MSMEs, the greater their ability to absorb relevant external information and utilize it to enhance marketing performance. These findings affirm that Absorptive Capacity not only strengthens the relationship between Market Orientation and Marketing Performance, but also serves as a key factor in increasing the competitiveness of MSMEs in a dynamic market. Therefore, MSMEs are encouraged to focus more on developing market-oriented strategies and enhancing their capacity to absorb information in order to achieve sustainable business growth..

6. Suggestion

Based on the findings and conclusions of this research, it is suggested that future studies explore the topic with a broader scope and larger sample size to enhance the generalizability of the results. Researchers are also encouraged to incorporate a variety of research methods, such as qualitative interviews or longitudinal studies, to gain deeper insights into the subject matter. Moreover, stakeholders, including small business owners and policy makers, should consider the implications of this study in developing more effective strategies to enhance absorptive capacity and marketing performance. Lastly, further investigations could examine additional mediating or moderating variables that may influence the relationship between market orientation and marketing performance.

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